

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 3133

EXDIS

DEPARTMENT PASS CINCPAC ALSO FOR POLAD

E.O. 11652: GDS
TAG: PEPR, PINR, ECON, US, KN, KS
SUBJECT: EXPOLITING NORTH KOREA'S ECONOMIC VULNERABILITY

1. SUMMARY: AS WE ANALYZE THE STRENGTHS AND WEAKNESSES OF NORTH KOREA, CONCLUSION REACHED THAT PRINCIPAL VULNERABILITIES OF NORTH KOREA LIE IN STATE OF ITS ECONOMY AND INHERENT INFLEXIBILITY OF ITS DIPLOMATIC POSITION. THE PROPOSAL IS MADE THAT WE IN FULL CONSULTATION WITH ROKG, ENGAGE IN WHAT IS LIKELY TO BE PROTRACTED EFFORT TO EXPLOIT THESE VULNERABILITIES AND THEREBY CONTRIBUTE TO REDUCTION OF ETNSION IN KOREA. END SUMMARY.

2. ECONOMIC VULNERABILITIES. FROM ALL DOCUMENTATION AVAILABLE TO US, INCLUDING JANUARY 1978 UNCLASSIFIED CIA REPORT ON "KOREA: ECONOMIC RACE BETWEEN NORTH AND SOUTH", NORTH KOREAN ECONOMY IS IN SERIOUS TROUBLE. APPARENTLY, EXPORT PERFORMANCE HAS BEEN VERY WEAK, RESULTING IN AN INABILITY
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TO FINANCE NEW CAPITAL IMPORTS AND CHRONIC DEFAULT OF FOREIGN DEBT; LABOR SHORTAGES HAVE BEEN RECURRENT; AND THERE ARE FAIRLY CONSTANT SHORTAGES AND DISLOCATIONS WITHIN INTERNAL ECONOMY. CRITICAL FACTOR FOR NORTH KOREA IS SHORTAGE OF EITHER DOMESTIC OR EXTERNAL CAPITAL TO FINANCE NECESSARY ECONOMIC INVESTMENT AND QUITE POSSIBLY FULL EMPLOYMENT OF ITS EXISTING NON-MILITARY INDUSTRIAL

PLANT. NORTH KOREA'S PROBLEM CAN BE DIRECTLY TRACED TO ONE FUNDAMENTAL ECONOMIC DECISION, NAMELY GROSS MISALLOCATION OF RESOURCES WITHIN NORTH KOREAN ECONOMY TO MILITARY EXPENDITURES WITH RESULTANT INADEQUATE RESOURCES FOR ECONOMIC DEVELOPMENT AND HIGH COST PRODUCTION OF MILITARY HARDWARE OF OBSOLESCEMENT DESIGN. OVER PAST DECADE, DPRK HAS PROBABLY DEVOTED BETWEEN A MINIMUM 15-20 PERCENT OF ITS GNP TO DEFENSE, IN CONTRAST INCIDENTALLY TO ROK INVESTMENT OF 4-5 PERCENT UNTIL VERY RECENTLY WHEN IT INCREASED TO 6 PLUS PERCENT OF GNP. FOR SOME YEARS, NORTH KOREA WAS SUCCESSFUL IN PAPERING OVER THIS MISALLOCATION OF RESOURCES THROUGH RELATIVELY HEAVY INFLOWS OF EXTERNAL CAPITAL, INITIALLY FROM SOVIET UNION, EASTERN EUROPEAN

SATELLITES AND CHINA AND SUBSEQUENTLY A LARGE EXTENT FROM WESTERN EUROPE AND JAPAN. FROM ALL EVIDENCE AVAILABLE TO US, MOST OF THE FLOW OF NEW CAPITAL HAS BEEN TURNED OFF NOT ONLY BY THE WEST, BUT ALSO THE COMMUNIST STATES, ALTHOUGH BOTH ARE MEETING TO SOME EXTENT PREVIOUS LOAN COMMITMENTS.

3. IF NORTH KOREA IS TO OBTAIN NEW CAPITAL INFLOWS NECESSARY FOR ITS RECENTLY LAUNCHED SEVEN YEAR PLAN, WE ASSUME THAT THERE IS ONLY ONE POTENTIAL MAJOR SOURCE, MOSCOW. NONE OF ITS OTHER COMMUNIST ALLIES HAVE THE RE-CONFIDENTIAL

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SOURCES TO CARRY THE NORTH KOREAN ECONOMY; AT THE SAME TIME, THE WESTERN EUROPEAN COUNTRIES AND JAPAN SEEM ALMOST UNIVERSALLY DISINCLINED TO PROVIDE HEAVY NEW LOANS WHILE EVEN INTEREST PAYMENTS, LET ALONE REPAYMENT OF PRINCIPAL, ON EXISTING LOANS IS WAY OVERDUE AND MUST BE CONSTANTLY RESCHEDULED.

4. OUR CONJECTURE IS THAT AT SOME POINT, AND QUITE PROBABLY DURING RUMORED FORTHCOMING VISIT OF KIM IL-SUNG TO MOSCOW, NORTH KOREA MUST SEEK SUBSTANTIAL SOVIET ASSISTANCE FOR ITS ECONOMY. OUR PROPOSITION IS BOTH OBVIOUS AND YET DIFFICULT TO ACCOMPLISH: THE PRICE FOR SUBSTANTIAL SOVIET AND OTHER AID SHOULD BE A SIGNIFICANT REALLOCATION OF RESOURCES BY THE NORTH FROM DEFENSE TO CIVILIAN ECONOMIC DEVELOPMENT. WHILE THERE ARE GROUNDS FOR SUSPECTING THAT MOSCOW INDEED MAY ALREADY BE TAKING THIS POSITION, WE SUGGEST THAT THE SOVIET UNION BE DISCREETLY NUDGED IN THIS DIRECTION. THE END PRODUCE OF SUCH A REALLOCATION OF NORTH KOREAN RESOURCES SHOULD CONTRIBUTE TO TENSION REDUCTION ON THE KOREAN PENINSULA, IF ONLY BECAUSE THE DPRK WILL HAVE FAR GREATER INCENTIVE TO BUTTRESS A LOWER RATE OF DEFENSE EXPENDITURES BY DIPLOMATIC MEASURES

DESIGNED TO REDUCE THE PRESSURES FROM THE SOUTH ON IT.
DPRK MUST BE EXPECTED TO RESIST LOWERING DEFENSE EXPENDITURES, PARTICULARLY DURING PERIOD WHEN ROK IS BOOSTING ITS DEFENSE INDUSTRY. HOWEVER, DPRK SUPERIORITY TO ROK IN DEFENSE INDUSTRY AND FIREPOWER WILL STILL BE CLEARCUT. FURTHERMORE, PROPOSITION WE ARE MAKING IS TO LEAVE DPRK NO ALTERNATIVE IF ECONOMY IS TO EXPAND.

5. NEEDLESS TO SAY, WE SHOULD AT SAME TIME IMPRESS UPON OUR WESTERN EUROPEAN AND JAPANESE ALLIES THE INHERENT RELATIONSHIP BETWEEN CAPITAL INFLOWS FROM THEM AND NORTH KOREA'S ABILITY TO MAINTAIN A LARGE AND POTENTIALLY DANGEROUSLY HIGH LEVEL OF DEFENSE EXPENDITURES. SUCH AN APPROACH TO OUR ALLIES WOULD RE-ENFORCE THEIR OWN CURRENT
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INCLINATION TO WITHHOLD ANY NEW LOANS.

6. WE ARE CONFIDENT THAT ROK WOULD GO ALONG QUITE WILLINGLY WITH ABOVE STEPS AT LEAST AS THEY RELATE TO REALLOCATION OF NORTH KOREAN RESOURCES FROM DEFENSE TO ECONOMY. HOWEVER, WE MAY HAVE PROBLEMS WITH ROK SHOULD WE SUCCEED IN ACHIEVING THE SECOND STAGE, NAMELY INCREASED NORTH KOREAN SUSCEPTIBILITY TO TENSION REDUCTION MEASURES ON THE KOREAN PENINSULA, PARTICULARLY IF THESE

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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 3133

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REQUIRE OFF-SETTING "CONCESSIONS" ON PART OF ROK.

7. NORTH KOREAN INFLEXIBILITY. THE OTHER PRINCIPAL VULNERABILITY OF THE NORTH IS ITS RIGID INSISTENCE UPON A ONE-KOREA SOLUTION WITH UNIFICATION ONLY ON ITS OWN TERMS. THE NORTH KOREAN CURRENT CAMPAIGN AGAINST "SPLITISTS" IS JUST ANOTHER PHASE OF THIS CONSTANT DRUMBEAT, WHICH IS APPARENTLY DIRECTED NOT ONLY AT THE NON-ALIGNED NATIONS BUT ALSO AT ITS OWN ALLIES. AS A CONSEQUENCE OF THIS UNRELENTING PROPAGANDA, THERE IS CONSIDERABLE EVIDENCE THAT THE NORTH HAS BLOTTED COPYBOOK IN A NUMBER OF COUNTRIES AND MANY HAVE HAD THEIR FILL OF RIGID UNSMILING NORTH KOREAN DIPLOMATS PEDDLING THEIR CONSTANT LINE.

9. THE SOUTH KOREANS HAVE ALREADY MADE INROADS AS A DIRECT RESULT OF THEIR OWN CONTRASTING FLEXIBILITY IN SOME INSTANCES: THEIR WILLINGNESS, FOR EXAMPLE, TO PERMIT DUAL REPRESENTATION IN COUNTRIES AND IN THE UN AND ITS SPECIALIZED AGENCIES.
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UNFORTUNATELY, THE SOUTH HAS NOT GARNERED THE FULL DIVIDENDS, DUE LARGELY TO ITS TENDENCY TO MIRROR THE NORTH KOREAN IMAGE AND OFTEN TO BARNSTORM BEHIND TOURING NORTH KOREAN DELEGATIONS WITH A SIMILAR UNSMILING RECITAL OF ITS SPIEL. FURTHERMORE, SOUTH KOREA'S REPUTATION FOR FLEXIBILITY IS PRESENTLY BEING TARNISHED BY ITS SUSPICIOUS AND COOL RECEPTION TO TITO'S TRILATERAL PROPOSAL. INHERENT IN THE SOUTH KOREAN POSITION IS AN UNDERLYING DISTRUST THAT NEGOTIATION, EVEN ON A TWO-KOREA BASIS, WILL INEXTRICABLY LEAD TO A US SELL-OUT OF THE SOUTH, AND THAT ANY SUCCESS IN NEGOTIATING WITH NORTH WILL LEAD TO FURTHER TROOP WITHDRAWAL AND US-DPRK RAPPROCHMENT.

10 EXPLOITATION OF NORTH KOREAN VULNERABILITY AS AN INFLEXIBLE CONTRAST TO THE SOUTH THEREFORE REQUIRES SOME REFURBISHING OF THE SOUTH KOREAN IMAGE AND CONCERTED SMOOTHING OF ITS DISTRUSTFUL FEATHERS, PARTICULARLY RENEWED CONFIDENCE IN OUR POLICY COMMITMENT TO ROK OVER THE LONG TERM. I AM CONVINCED THAT THIS CAN BE ACCOMPLISHED AND IN FACT HAVE SOME HOPE THAT SOUT WILL COME AROUND AND ACCEPT, ALBEIT RELUCTANTLY, THE TRILATERAL PROPOSAL. BUT, I WOULD SUGGEST THAT IT WOULD BE FAR EASIER TO SET THE STAGE FOR REFURBISHING THE SOUTH'S IMAGE AS A FLEXIBLE PART OF KOREA IF WE SIT DOWN WITH THEM AND DISCUSS AND AGREE TO THE BORADER

OBJECTIVES OF A CONCERTED DIPLOMATIC EFFORT TO HIGHLIGHT NORTH KOREA'S INFLEXIBILITY RATHER THAN PROPOSING TO THEM A SERIES OF PIECEMEAL ACTIONS DESIGNED TO ACHIEVE THIS OBJECTIVE. WE MUST ALSO BEGIN TO SPELL OUT TO ROK OUR LONG-TERM GOALS IN NEGOTIATIONS IN A MANNER DESIGNED TO DISARM DISTRUST OF US--KOREAN FEARS OF A US DISENGAGEMENT FROM KOREA, LEAVING ROK IN VULNERABLE POSITION.

11. ONCE THE PRELIMINARIES WITH THE SOUTH ARE OUT OF THE
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WAY, IS SUGGEST A CONCERTED CAMPAIGN OVER AN EXTENDED PERIOD DESIGNED TO USE THE CONTRASTING NORTH-SOUTH POSITIONS TO PLACE THE NORTH ON THE DEFENSIVE TO THE EXTENT THAT A CHANGE IN POLICY WILL BECOME INCREASINGLY NECESSARY IF THEY ARE NOT TO ALIENATE MOST OF THE NON-ALIGNED GROUP, LET ALONE THEIR OWN ALLIES. INHERENTLY, MOST COUNTRIES, INCLUDING I ASSUME EVEN MOSCOW AND PEKING, ACCEPT THE INEVITABILITY FOR AT LEAST THE SHORT TERM OF A TWO-KOREA SITUATION. OUR PROBLEM IS TO CRYSTALLIZE AND FORMALIZE THIS ACCEPTANCE IN A FORM THAT WILL RESULT IN A TANGIBLE REDUCTION OF TENSION ON THE KOREAN PENINSULA AND IN EFFECT FORCE THE NORTH BACK TO THE BILATERAL NORTH-SOUTH NEGOTIATING TABLE. IT IS SUCH A CAMPAIGN THAT I PROPOSE WE DISCUSS WITH THE SOUTH IN THE FIRST INSTANCE BOTH TO DISPELL THEIR DISTRUST AND TO INJECT INTO THEIR DIPLOMACY THE NECESSARY COMPONENT OF CONTRASTING FLEXIBILITY.
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